

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7673**

**BILL NUMBER:** HB 1870

**NOTE PREPARED:** Mar 3, 2003

**BILL AMENDED:** Mar 3, 2003

**SUBJECT:** Rental property tax deductions.

**FIRST AUTHOR:** Rep. Buell

**FIRST SPONSOR:**

**BILL STATUS:** 2<sup>nd</sup> Reading - 1<sup>st</sup> House

**FUNDS AFFECTED:**     **GENERAL**  
                              **X DEDICATED**  
                              **FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) The bill establishes standards for the determination of the true tax value of low income housing.

**Effective Date:** (Amended) March 1, 2002 (retroactive).

**Explanation of State Expenditures:**

**Explanation of State Revenues:** (Revised) The State levies a small tax rate for State Fair and State Forestry. If there is any reduction in the assessed value base under this bill, the property tax revenue for these two funds would be reduced. The reduction, if any, would be minimal.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** (Revised) The bill would prohibit consideration of tax credits or government subsidies in determining the value of low income housing property. The restrictions on the income considered could reduce the value of the property in certain situations.

According to the DLGF, most low income housing property is assessed under the "cost less depreciation" method. The bill would have no impact on property that continues to be assessed in this fashion. It is only when a property is assessed under the "capitalization of income" method that this bill could have an effect. There is a great deal of uncertainty surrounding the issue of when and how subsidies are to be considered under current statutory law, current case law, and the new market value assessment rule.

If assessed under the income method, whether as an initial assessment or under appeal, the assessment of low income housing property might or might not consider the income from subsidies. Under this bill, these assessments definitely would not consider subsidy income. It is possible that there could be an increase in

appeals under this provision if an income approach assessment would be more favorable to a taxpayer under the bill than the taxpayer's current assessment.

Because the true base assessed value of low income housing property if assessed under the "capitalization of income" under current law is unclear, it is difficult to quantify the fiscal impact of this bill. **The impact could range from literally no impact to a minimal impact.**

If assessed value is reduced, the reduction would cause a shift of the property tax burden from the taxpayers receiving the AV reduction to all taxpayers in the form of an increased tax rate. This shift, if any, would be minimal.

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the AV reduction amount, if any, applicable to that fund.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** County and township assessors; County auditors.

**Information Sources:** Kurt Barrow, Director of Assessments, Department of Local Government Finance, (317) 232-3777.

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